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# FROM BOUNTIES ON EXPORTATION TO THE NATURAL AND MARKET PRICE OF LABOUR: SMITH VERSUS RICARDO<sup>1</sup>

by

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EARLY DRAFT

## **Introduction**

Schumpeter's remarks on Ricardo's reaction to Smith's system of thought ("he studied the *Wealth*; he was shocked at what seemed to him to be a logical muddle; he set about straightening out this muddle; and the *Principles* was the ultimate result of this work of creative criticism") (1954, p.472) can be further articulated by noting that the criticism which really runs through Ricardo's *Principles* is sometimes implicit and sometimes explicit, and that this criticism, whether implicit or explicit, is directed sometimes to the foundations of Smith's system of thought and sometimes to the conclusions built on those foundations. While Ricardo's explicit and fundamental criticism of Smith's system reaches a climax in Chapter 1, *On Value*, of the *Principles*, a number of explicit criticisms are concerned with more specific or practical issues and are focused on the conclusions to be derived from Smith's or Ricardo's different foundations. One instance can be found in Chapter XXII, *Bounties on Exportation, and Prohibitions of Importation* of Ricardo's *Principles*. This chapter provides a criticism of Chapter V, *Of Bounties*, Book IV of the *Wealth of Nations* and is intended to prove that "perhaps in no part of Adam Smith's justly celebrated work, are his conclusions more liable to objection, than in the chapter on bounties" (*Principles*, p.304).

Neither was Ricardo's criticism on this specific issue an isolated episode in the context of the manifold reactions to Smith's work. The historical relevance of this criticism is confirmed in two opposite directions. One goes back to the years between the publication of the first editions of the *Wealth of Nations* and Ricardo's *Principles*. The other brings us forward to the years of Sraffa's publication of Ricardo's works (1951-1973) and to the following revival of Ricardian economics. In both periods the debate focused less on bounties on exportation in general than on the most discussed of these bounties, namely on the bounty on the exportation of corn.

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In the period between the publications of those two great works, the debate was focused on the encouragement to the production of corn that the bounty was supposed to give<sup>2</sup>. Hence the criticisms against Smith's argument by a number of authors such as Pownall (1776 [1987]), Anderson (1777 [1968]) and Malthus (1803 [1986], 1814 [1986] as well as the counter-criticisms by other authors such as Horner (1804 [1957]). This debate brought to light a basic contradiction in each of the two parties: one, noted by Horner and Buchanan, was in the argument, widely used by the supporters of the corn bounty, that this device served both to raise the price paid to the farmer and to reduce that paid by the consumer; the other, noted by Buchanan and partly denied by Horner, was that the bounty would both encourage the production of corn (as Smith silently admits when mentioning the "less advantageous channel" in which the trade of a country is forced by the bounty) and leave this production unchanged (as Smith eventually argues due to the chain reaction of money prices on which his argument is built)<sup>3</sup>.

Ever since Ricardo's *Principles* was published, the debate substantially changed. A new thrust was given by Ricardo's idea that Smith's argument on bounties was not only in contrast with a wise policy measure, as maintained by the previous critics of that argument and by the previous supporters of that measure. It was also in contrast with his alternative system of thought. Hence the attention paid to this issue in the revival of interest on Ricardo's thought (as such or as an alternative to Smith's) that took place in the 20th century sometimes before and more systematically after Sraffa's publication of Ricardo's works. Thus the issue of the corn bounty has attracted the explicit or implicit attention of a growing number of scholars who were aiming at more general issues<sup>4</sup>. Among these

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<sup>2</sup> This positive view of the corn bounty had been shared by "the best writers and statesmen of England" who had "mentioned it always with admiration" (Horner, 1804 [1957, p. 97]) and was firmly established in the public mind when Smith came out with his conflicting conclusions. Among the people who had thought that it "tends to encourage tillage" was Smith's earlier namesake Charles Smith (1766). Smith regards his predecessor as an "ingenious and well-informed author" perhaps because the latter's (opposite) conclusions respecting the bounty's encouragement to tillage had been argued in more sophisticated terms than those reached by others while the latter's detailed collection of historical data on corn trade contributed to Smith's (opposite) interpretation of these data in his "Digression concerning the Corn Trade and Corn Laws" (WN, IV.5.40-92). This digression should be read along with the digression on the *silver* price of *corn* inappropriately titled (from the standpoint of the chapter on bounties) "Digression concerning the Variations in the Value of Silver during the Course of the Four last Centuries" (WN, I.11.96-176).

<sup>3</sup> For an illuminating discussion of these early criticisms, see Hueckel (2009). For a catalogue of the modifications of the text on bounties provided by Smith, partly as a result of these criticisms, in subsequent editions of the *Wealth*, see Prendergast (1987).

<sup>4</sup> One of these issues is the so-called "adding-up theory of price". This theory has been developed in Sraffa's footsteps as an old counterpart to Ricardo's new theory of value and distribution on the grounds that what this new theory was opposed to "was not merely the popular view of the effect of wages on prices [as argued, for instance, in Smith's chapter on bounties] but *another and more general* theory of Adam Smith (of which that effect came to appear as a particular case) –what Ricardo referred to Mill as Adam Smith's 'original error respecting value'" (Sraffa, 1951, pp.

authors are Peach (1993, 2008, 2009), Hollander (1973, 1979, 1980, 1982, 1987 [1992], 1992), O'Brien (1981 [2004], 1981), O'Donnell (1990), West (1982), Gibbard (1994), Samuelson (1977, 1992), Elmslie (2004), Hueckel (2000a, 2000b, 2009).

The scope of this paper is more restricted than that of the whole literature developed in the two periods above for it will only be concerned with Ricardo's criticisms of Smith's arguments on bounties and with Smith's would-be counter-criticisms. Its aim is to assess, first, whether or to what extent Smith and Ricardo are consistent "with themselves", i.e. with the foundations, or other parts, of their different systems of thought; and, secondly, whether Ricardo's criticisms are based on a misunderstanding of at least some of his predecessor's arguments or of at least some of the foundations of the latter's system of thought.

Smith's arguments and Ricardo's criticisms will be first highlighted by juxtaposing what is argued by the one to what is argued by the other. Since, however, the details of their diverging arguments are not enough for coming to grips with their origins, the paper will proceed by singling out some faults or inaccuracies in these arguments in the first place; and, secondly, by tracing these faults or inaccuracies to the diverging foundations of Smith's and Ricardo's systems of thought. Thus the paper will proceed as follows. Section 2 provides a table with a synthetic view of the main diverging arguments of our two authors. Section 3 is focused on the core of Ricardo's criticisms as identified in box # 4 of the previous table. Sections 4 to 7 are then devoted to the counter-criticisms of a fictitious subject called *Smith redivivus* who defends himself from the most important of Ricardo's criticisms<sup>5</sup>. Moving from one to the other of these Sections, one is eventually led to realize that the divergences between our two authors are due to Ricardo's misunderstandings, at a specific level, of *money* prices for *real* prices and, at a more general level, of the natural and market price of *labour* (in the sense of work to be done) for the natural and market price of *commodities* (in the sense of work done). As highlighted in Section 8, these misunderstandings are traced to Ricardo's neglect, in his reconstruction and critique of Smith's arguments, of the difference between *vérité de raison* and *vérité de fait* as well as between the point of view of an *individual* and the point of view of *society*. This neglect

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xxxv-vi, square brackets and italics added). Mill's following statement that "He [Smith] is particularly faulty in the chapter on bounties" (*Works*, VII, p.100) is cut out from Sraffa's quotation.

<sup>5</sup> For a previous use of this fiction, see the anonymous pamphlet entitled *My "Two Capitals" Theory. An Interpretation by Adam Smith Redivivus*, London: The Cobden Club, 1911.

goes hand-in-hand with Ricardo's rejection of Smith's principle of value as command of labour<sup>6</sup>.

### **1. Status quaestionis: Smith's and Ricardo's conflicting arguments**

Smith's chapter on bounties cannot be understood unless one keeps in mind that this chapter belongs to Book IV, *Of Systems of Political Economy*, and that this is one of the chapters devoted in that Book to the exposition and critique of Mercantilism. What is most important, however, for understanding that chapter is that Book IV belongs in turn to a system of thought the foundations of which are laid out in Book I (theory of value and distribution) and in Book II (theory of capital and growth) of the same work. Ricardo's criticisms of that chapter are in turn based, as much as many other criticisms of other parts of Smith's work, on the theory of value and distribution developed by Ricardo in the first and most fundamental chapter, *On Value*, of his *Principles*. Before moving to a detailed examination of Smith's arguments, Ricardo's criticisms and Smith's counter-criticisms, it may be helpful to sum up and compare the most important of Smith's arguments and Ricardo's criticisms. This is done in the table below.

SMITH's arguments on bounties	RICARDO's reply	Reasons for RICARDO's reply
1. Bounties force trade into channels actually disadvantageous or less advantageous than those in which it would run of its own accord	Correct	This effect of bounties on exportation, both of corn and of manufactures, implies a pernicious distribution of the general funds of society
2. Bounties on manufactures raise not only their nominal but also their real price whereas bounties on corn raise only its nominal price and will retard, instead of advancing, the cultivation of land	Wrong	Bounties on manufactures raise for a time their market price though not their natural price whereas bounties on corn, if continued, will raise its natural price due to the worse quality of lands taken into cultivation
3. Bounties on corn impose two different taxes in every particular year: the tax needed to pay the bounty and the higher price of corn charged on the whole body	Partly wrong	The first tax is unquestionable but the second tax implies a rise in the market price of corn which is liable to recede as capital is diverted from manufacturing to the growing of corn

<sup>6</sup> The story and consequences of this rejection as well as of the principle rejected, though repeatedly examined in the literature, do not belong to the scope of this paper. For some recent accounts and contributions (partly or entirely in contrast with the conclusions to be reached below), see Hueckel (2000a, 200b), Naldi (2003) and Peach (2008, 2009).

of the people		
4. Since bounties on corn affect not the real but only the money price of corn, it follows that “the money price of labour, and of everything that is the produce either of land or labour, must necessarily either rise or fall in proportion to the money price of corn”	Wrong	Smith’s idea proceeds from his original error of thinking that the price of corn ultimately regulates wages and therefore also the price of all other commodities. This contradicts Ricardo’s original theorem that no alteration in the wages of labour could produce any alteration in the relative values of these commodities
5. Bounties on corn discourage manufactures without rendering any considerable service to farmers and to country gentlemen	Wrong	Country gentlemen have a permanent interest in the establishment of bounties on corn while farmers and manufacturers have only a temporary interest in the establishment of bounties on their respective products
6. The only effect of bounties is to lower the value of money in terms of the home-made commodities and thus to discourage every sort of industry in the home country	Wrong	The degradation in the value of money in a particular country, as distinct from the world at large, will produce an exportation of gold and silver until the relative values of foreign goods and home-made goods regain their usual level
7. The exportation occasioned by the bounty in years of plenty frequently hinders the plenty of one year from relieving the scarcity of another	Missing	

Both Smith’s arguments and Ricardo’s criticisms gravitate towards what has been summed up in row # 4 above. It is therefore from this row that our inquiry begins.

## **2. Ricardo’s central criticism: the wage-profit inverse relationship**

A preliminary framework for Ricardo’s criticisms consists in distinguishing first the temporary from the permanent effects of the corn bounty on market price as distinct from natural price, and then the effects of a corn bounty from the effects of bounties on manufactures. He then proceeds by assuming first an unchanging and later a changing natural price of corn as if Smith were unaware of the necessity of separating the perspectives resulting from these assumptions. Ricardo’s central criticism, however, is focused on the “common error” of Adam Smith and other writers who believe, in Ricardo’s own reconstruction, that “because the price of corn ultimately regulates wages, therefore it will regulate the price of all other commodities” (*Principles*, pp.307-8). Now Ricardo objects to this “error” by recalling what he had already shown in his initial chapter on value; namely that, once the exchangeable value of commodities is given according to the principle of

labour embodied, any alteration in the wages of labour exclusively results in an opposite alteration in the profits of stock (according to the wage-profit inverse relationship) and no alteration at all in the relative value of commodities (except when commodities are produced by different proportions of fixed and circulating capitals or, given these proportions, by capitals of unequal durability). Thus Ricardo's central criticism runs as follows (the symbol [√], to be discussed below, is added to the original text):

"In considering a rise in the [√] price of commodities as a necessary consequence of a rise in the [√] price of corn, he [Smith] reasons as though there were no other fund from which the increased charge could be paid. He has wholly neglected the consideration of [√] profits, the diminution of which forms that fund, without raising the [√] price of commodities. If this opinion of Dr. Smith were well founded, [√] profits could never really fall, whatever accumulation of capital there might be" (*Principles*, p.308).

This criticism is then supported by the development of two assumptions. One is that, if prices are intended in money terms and all money prices rise in proportion, commodities "would continue to bear the same value relatively to each other", the real profits of different trades would remain unchanged and "the whole rise in price of raw produce and of goods would be injurious to no other persons but to those whose property consisted of gold and silver". The other is the opposite assumption of a moneyless economy. Here Ricardo's implicit conclusion is that, if prices are intended in real terms, then Adam Smith is absolutely wrong. For, leaving aside the issue of real profits again but taking into consideration the need for an invariable measure of value, he points out that, if corn were admitted to rise in exchangeable value with other things, then Smith could not maintain what he generally does, namely that the value of corn is constant so that corn can be used as an invariable measure of the value of all other commodities; whereas, if corn were *not* admitted to rise, Smith would be forced to argue in contradiction with himself that corn, whether "obtained on rich, or on poor land, with much labour, or with little, with the aid of machinery, or without," would always exchange for an equal quantity of other commodities (*Principles*, pp.308-9). This argument is closed by Ricardo's acknowledgment that, in spite of these inaccuracies, errors and contradictions, Smith does provide "a correct account of the nature of value" at least in the passage concerning the relative value of gold and silver (in terms of other commodities) as something that "DEPENDS IN ALL CASES" (capital letters are Ricardo's) upon the proportions of the labour embodied in the commodities exchanged. Here Ricardo's implication (to be examined in detail below in section 4) is that this passage is correct not only because it maintains (in contradiction, Ricardo seems to imply, with Smith's more general theory of value) that it is the relative amounts of labour

embodied that determines the exchangeable value of commodities; but also because it implies (in contradiction, Ricardo also seems to imply, with Smith's view of corn as an invariable measure of value) that gold and silver may be said to vary in exchangeable value only if it is the labour embodied in them, not the labour embodied in the commodities exchanged for them, that is the source of the variation.

### **3. Smith's counter-criticism # 1: money price vs. real price**

The insertion of the symbol [√] in Ricardo's passage above was intended to draw the reader's attention to what appears to be an initial misunderstanding of Smith's argument. The inaccuracy of the reconstruction of this passage should be evaluated in the light of the necessary meaning of the term "price" used in the first and most fundamental chapter of Ricardo's *Principles*. Although this term is often used with an explicit regard to the monetary *medium* (the pound sterling) in which price is expressed, yet both its *size* and its *variations* are dealt with in that chapter as corresponding to the size and variations of the exchangeable or relative *value*, and accordingly of the real or relative *price*, of one commodity in terms of another. The (exchangeable or relative) values or (real or relative) prices considered in this chapter as the object of its fundamental theorems are, therefore, the *real*, not to the *money*, prices of commodities. That the size and variations of price discussed by Ricardo in that chapter be the size and variations of *real* or relative prices, even when it is nominal prices expressed in pound sterling that are said to rise or fall, is confirmed by Ricardo's recurrent assumption that the value of money is constant and, indeed, by his eventual supposition that "money made of gold" may be considered as an invariable measure of the value of other goods (*Principles*, p.46).

Ricardo's reconstruction of Smith's arguments on bounties is best understood if what he writes in his own chapter on this issue is compared with what he should have written to be consistent with his chapter on value. Ricardo's own statement on bounties runs as follows (the symbol [√] highlights the missing terms to be entered in the reconstruction below):

"If, however, I have succeeded in shewing that it is not the rise in the *money* wages of labour which raises the [√] price of commodities, but that such rise always affects [√] profits, it will follow that the [√] prices of commodities would not rise in consequence of a bounty" (*Principles*, p.303; italics added).

To make this statement consistent with Ricardo's chapter on value, one should rather reconstruct it as follows (words in italics have been altered or added):

If, however, I have succeeded in showing that it is not the rise in the *real* wages of labour



which raises the *real* price of commodities, but that such rise always affects *real* profits, it will follow that the *real* prices of commodities would not rise in consequence of a bounty.

If Ricardo had expressed himself in this manner, he would have been consistent not only with himself but also with Adam Smith, at least with regard to Smith's central passage. For Smith's argument on bounties is confined to the assertion that their introduction raises the *money* price of corn as distinct not only from its *real* price but, what matters most, from its *natural* price.

In this perspective, it is possible that *Smith redivivus* would formulate his response as follows: in his reconstruction of my argument on the corn bounty, Ricardo seems to be moved by a sort of *petitio principii*. For he tackles this argument as if I were concerned with the same problems, or with the same approach to these problems, he is concerned with in his chapter on value. But what Ricardo is concerned with in this chapter are variations in the *real* prices, or exchangeable values, of commodities in terms of each other whereas what I am concerned with in my chapter on bounties are variations in what I call sometimes *money* prices and sometimes *nominal* prices as two equivalent expressions that are repeatedly juxtaposed to *real* prices. The same applies to my treatment of profits. For the profits Ricardo has in mind while reconstructing my arguments on bounties are *real* profits whereas the profits implied in these arguments are *money* profits. I readily admit that I should have discussed this subject more explicitly but I thought that, once I said that the money prices of all commodities were to increase in proportion to the initial increase in the money price of corn, it would have been easy for my readers to conclude that money profits would equally increase while real profits remain unchanged. My repeated use of the terms money/nominal prices in my arguments on bounties, I must now point out, indicates that money is there regarded as a *unit of account* while its stock is taken as a *constant* magnitude, regardless of whether it consists of gold, silver or paper money and of whether, in the latter case, paper money is convertible into bullion –as was the case in my times- or is not –as is the case in modern times. This assumption is unavoidable in those arguments for the simple reason that they are focused on the effects of an institution –the bounty- on the *money price of corn*; and not on the effects of a different event –such as the discovery of new mines, a change in the labour embodied in metallic money, or the printing of inconvertible banknotes- on the *corn price of money*, i.e. on the amount of corn that a given quantity of gold, silver or paper money can command<sup>7</sup>. Thus, going back to Ricardo's

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<sup>7</sup> Ricardo's misunderstanding may descend from his view of money as a commodity (gold or silver) the value of which is determined, like the value of any other commodity, according to the principle of labour embodied. This explains why

conclusion at the end of Section VI of his chapter on value (“Adam Smith, and all the writers who have followed him, have, without one exception that I know of, maintained that a rise in the price of labour would be uniformly followed by a rise in the price of all commodities”) (*Principles*, p.46), I admit that this conclusion is indeed coherent with Ricardo’s previous arguments in that very chapter; but I must object that it is nonetheless based on the misunderstanding by which the term “price” is used in that conclusion without the required attribute of “money” or “real”, regardless of whether what is under discussion is my argument or his. The misunderstanding consists in believing that what I am dealing with in my chapter on bounties (changes in money/nominal prices) is exactly what Ricardo deals with in his fundamental chapter on value (changes in real prices). As a result, Ricardo’s use of the term price in his remarks on, or reconstructions of, my argument on bounties is *consistent*, I must admit, with the use he makes of that term in *his* chapter on value; but it is nonetheless *inconsistent*, I must add, with the use I make of that very term in *my* own chapter on bounties<sup>8</sup>.

Furthermore, by arguing at the end of his chapter on value that “wages are to be estimated by their real value, viz. by the quantity of labour and capital employed in producing them, and not by their nominal value either in coats, hats, money, or corn” for which it is *exchanged*, Ricardo adds a new and peculiar meaning to the terms “real” and

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Ricardo may be consistent with himself when dropping the term “money” in front of the term “price” in his reconstructions of my argument on bounties. But he is nonetheless inconsistent with this very argument (which is in turn unrelated to my statement on the value of gold and silver shared by Ricardo and discussed below) in that my argument implies that the purchasing power of money changes as a result of what happens not to the *supply* conditions of its material substance but to the *demand* for it resulting (whatever this material substance) from the increasing money price of corn, of labour and of all (home-made) commodities generated by the introduction of the bounty. Hence the difference between the depreciation of money in a particular *country* and its depreciation in the whole *world*; a difference that I have highlighted by means of -though it should not be confined to- the example of Spain and Portugal as “distributors of gold and silver to all the other countries of Europe” (*WN*, IV.5.16-17; 18-21). For a misleading account of the term “nominal” used in my chapter (and re-used with a different sense by Ricardo and others), see the interpretation by which my changes in money/nominal price are intended, for instance by West (1982, p.310), as resulting from “an alteration in the cost conditions of the monetary medium”. An even more misleading identification of the accounting medium with “metallic” money was committed by Pownall (1776 [1977]) at the very beginning of the controversies on the issue of bounties. See, in this connection, Torrens’ extension to bullion of the consequences of a rise in the money price of corn along with Hollander’s recent remark that, had Torrens developed this extension further, “he would have been led in the same direction as Ricardo” (1979, p.64). The distinction between the “money price of bullion” and the “real value of bullion” was nonetheless known to, and practiced by, Ricardo -though not with regard to changes in the demand for the monetary medium- in his essay on the high price of bullion (see *Works*, III, p. 64). Finally, I am keen on stressing the similarity between Ricardo’s conclusion at the very end of his chapter *On Profits* (but check also Ricardo’s argument on pages 308-309 of his chapter on bounties) and my own conclusion that “the real effect of the bounty is not so much to raise the real value of corn as to degrade the real value of silver” (*WN*, IV.5.11).

<sup>8</sup> Thus the “distinction between causes which affect the value of money and causes which affect the value of commodities” (as Sraffa puts it in his attempt to extend Ricardo’s assumption of the “invariability of the value of the precious metals” as the “sheet anchor on which all my propositions are built”, see *Works*, I, p.xxxiv, and VI, p.348) is a “sheet anchor” for my very propositions on bounties, provided that the “value of commodities” be intended as the *real* value of one product in terms of another and not as the purchasing power of the monetary medium, whatever its substance, over all available products

“nominal” which are so crucial for understanding my chapter on bounties. The term nominal, for instance, is used in Ricardo’s passage to convey the idea of the commodities *exchanged* for labour while the term real (usually adopted by Ricardo himself to convey the idea of a purchasing power in terms of commodities, such as the “coats, hats, money, or corn,” mentioned in the passage above) is here used by him to convey the idea of the labour *embodied* in the commodities to be exchanged. Thus, when he comes to his criticisms of my chapter on bounties, Ricardo is forced to misunderstand the main arguments of this chapter either because of the different meanings he attaches to the same terms or because of the different assumptions he adopts when distinguishing the variations resulting from a change in the stock of money and those resulting from a change in the demand/supply of corn. This distinction is as necessary for understanding the problems discussed in his chapter on value as it is for understanding the problems discussed in my chapter on bounties<sup>9</sup>.

#### **4. Smith’s counter-criticism # 2: work done vs. work to be done**

It has been argued above that Ricardo’s misunderstanding on the money/real aspects of the term price used in Smith’s argument on bounties may result from his view of money as a medium made of gold and of gold as one of the commodities exchanged according to the principle of labour embodied in their production. This principle and that view lie behind Ricardo’s praise, mentioned above, of that part of Smith’s work where Smith provides “a correct account of the nature of value” (*Principles*, p.309). This praise, however, seems to conceal an even more fundamental criticism of Smith’s system of thought. For what Smith is concerned with in the passage approvingly quoted by Ricardo (a passage that is actually devoted to the advantages and complications of paper money) is the real price of commodities (as distinct from their money price) as determined according to the only principle admitted by Ricardo, i.e. the principle of labour embodied, and not according to the principle of labour commanded, maintained by Smith but rejected by Ricardo. This

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<sup>9</sup> In this connection, it is worth recalling Section VII of Ricardo’s chapter on value where, for instance, he writes that “a rise in wages, *from an alteration in the value of money*, produces a general effect on price, and for that reason it produces no real effect whatever on profits” (*Principles*, pp.48-49; italics added). The *consistency* between this statement and Ricardo’s chapter on bounties highlights the *inconsistency* between the same statement and Smith’s own chapter on bounties if what was pointed out in the previous footnote is true, namely that Ricardo’s “alteration in the value of money” must be intended as an alteration in its *supply* conditions (which is why the term “money” is not required –and indeed does not appear– next to the term “price” used immediately after the words in italics). Thus, whatever the meanings attached to the terms “money” and “real”, Ricardo’s arguments in Section VII of his chapter on value show his good command of the double distinction between money and real *price* and money and real *profit*, without which his whole chapter on value and Smith’s whole chapter on bounties would equally collapse.

twofold implication of that praise explains the capital letters adopted (instead of the italics of the 1<sup>st</sup> and 2<sup>nd</sup> edition of the *Principles*) in Ricardo's quotation of Smith's statement that the value of gold and silver in terms of other goods "DEPENDS IN ALL CASES" on the proportion between the quantity of labour embodied in each of these commodities (*WN*, II, ii, 311-2; see also *Principles*, p.352).

Now the possible reaction of *Smith redivivus* to this explicit praise and implicit indictment might be put as follows: my discussion of changes in the money price of corn, of labour and of all other (home-made) commodities does not contradict either my argument on what determines the value of gold and silver in the statement quoted by Ricardo or my more general theory of value. As for the changes in money prices, they are intended since the beginning of my argument on bounties as changes that take place in a given "period of improvement" or "stage of improvement" (as I call it either in my chapter on bounties, *WN*, IV.5.13, or elsewhere in my work) and therefore in a context in which real prices are *given*. As for the expression "depends in all cases", what I mean by it in the passage quoted by Ricardo is that, whatever happens to the value of paper money in terms of gold and silver or of other goods, the quantity available of gold and silver is what it is when the bounty is established while their exchangeable value is what is determined, in a given stage of improvement, by the amount of labour required for their production. This is consistent not only with my implicit assumption above that the stock of money (be it gold, silver or paper money) is given but also, more generally, with my principle of labour commanded. For, according to my theory, this principle must be regarded as a complement to the other and, in spite of its rejection by Ricardo, can be regarded as the foundation of those modifications of the principle of labour embodied that are called for by Ricardo himself in his chapter on value when commodities are produced by the employment of different proportions of fixed and circulating capitals or, given these proportions, by capitals of different durability. I will return to this foundation at the end of our discussion when I will try to squeeze the most out of an important point I make in Chapter VII, Book I, of my work. I now confess that I should have devoted to this point a much greater attention than I actually did. This point concerns the distinction between labour as *work done* and labour as *work to be done* (*WN*, I.vii.19). Had I devoted to this distinction the greater attention it deserves, I would have come to the explicit conclusion that one thing is the determination of the exchangeable value of different forms of work done (commodities); and that a very different thing is the determination of the exchangeable value of work to be done (wage rate).

### 5. Smith's counter-criticism # 3: amounts of riches vs. shares of value

One of the consequences of Ricardo's misunderstanding of Smith's treatment of money/real prices in his chapter on bounties includes the manner in which Ricardo's view of the wage-profit inverse relationship affects his criticisms of Smith's argument. This view, which is known in the literature as Ricardo's fundamental theorem of distribution, is strictly connected to Ricardo's crucial problem of the invariable measure of value. Thus if we return to the passage fully quoted above from page 308 of the *Principles* and we focus on Ricardo's sentences that "he [Smith] reasons as though there were no other fund [profits] from which the increased charge could be paid" and that "if this opinion of Dr. Smith were well founded, [√] profits could never really fall, whatever accumulation of capital there might be", we face again, though now at a much higher and more sophisticated level, the same *petitio principii* encountered above. For not only is Ricardo's fundamental theorem of distribution concerned exclusively with the *real* price (relative or exchangeable value) of commodities but the wage-profit inverse relationship is discussed in his chapter on value exclusively in terms of the rise (or fall) of *real* wages and of the associated fall (or rise) of *real* profits. And, to be as precise as Ricardo is, it should be added that such a relationship is eventually discussed in that chapter, along with the *real* wages and profits that it implies, in terms of the *shares* of the exchangeable *value* of the products appropriated by those who have participated in their production.

Given this context, a possible objection by *Smith redivivus* to Ricardo's criticisms may be put as follows: while misunderstanding my argument on bounties, Ricardo ignores that I have my own view of the wage-profit inverse relationship, although I never call it so, and that this view of mine (and the associated fundamental theorem of distribution) is different from his<sup>10</sup>. I must, however, acknowledge that our diverging views have an element in common and that the neglect of this element is the very source of Ricardo's misunderstanding. This element is that the wages and profits involved in that inverse relationship are for both of us *real*, rather than *money*, wages and profits. Our differences stem from the different meanings we attach to the term "real" used in this connection. While, according to Ricardo, the wages and profits of the inverse relationship (leaving rent

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<sup>10</sup> Not only is my view of this relationship put forward in the context of that competition-of-capitals doctrine which was rejected by Ricardo, but this doctrine rests on a theory of value different from what is professed by Ricardo. Besides, my theory of value is not the only framework in which my competition-of-capitals doctrine finds its proper place. Another and most important framework is my theory of capital (Meacci, 2006). This theory, which was never rejected and was indeed defended by Ricardo on many controversial points, has been rather neglected in the revival of interest on the classical theory of value and distribution following Sraffa's work.

aside) are essentially the *shares* of the exchangeable *value* determined according to the principle of labour *embodied* and appropriated by the owners of the labour and capital employed in the production of a particular or aggregate product, my view of that relationship is based on the changing *amount* of “riches” (as Ricardo calls them in an *ad hoc* chapter devoted to criticize a different part of my work)<sup>11</sup> or of what I call the “necessaries, conveniences and amusements of human life” given in exchange for labour or, which is the same, commanded by labourers as the owners of work to be done. Ricardo’s view, however, coincides with mine (to the detriment, it must be acknowledged, of the consistency of his theory) when, after admitting in his chapter V, *On Wages*, that the demand for labour may well exceed its supply even “for an indefinite period”, he comes to the conclusion that in these circumstances wages increase (above their natural level) and profits fall (below their natural level) not in his sense, i.e. as *shares* of *value* intended as labour embodied, but in mine, i.e. as the *amount* of *riches* received by labourers in exchange for their labour. For it is only in the long run that, according to Ricardo, the price of labour intended in *his* sense (and its share of the value produced intended in the same sense) is expected to rise while the quantity of riches given in exchange for it is expected to fall, or not to rise at all. The surprising result of this way of reasoning is that the value of labour discussed by Ricardo in his chapter on wages conforms not to his (exclusive) principle of labour embodied but to my (added) principle of labour commanded. According to this principle the price of labour, whether market or natural price, is defined as the amount of wage goods exchanged for labour (work to be done) and not as the amount of labour embodied in these goods (work done).

## **6. Smith’s counter-criticism # 4: money/real vs. market/natural price**

The discussion above has shown that the wage-profit inverse relationship is intended by Smith and Ricardo not only in two different senses, i.e. as an inverse variation of shares of value in Ricardo and of amounts of goods in Smith. It is also presented or used by them in the context of two different horizons, the short run and the long run. These different meanings and horizons interact in their systems of thought not only with their common distinction between *market* and *natural* price (however determined) but also with the difference (implicit in some parts of Smith’s work but explicitly rejected by Ricardo) between

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<sup>11</sup> This is Chapter XX, *Value and Riches. Their Distinctive Properties* of Ricardo’s *Principles*. This chapter, I must now point out, is another instance of Ricardo’s inability to come to grips with my failures by eliminating them from *within* (i.e. in consistency with my entire system of thought) rather than from the *outside* (i.e. in consistency with his own and alternative system). On this chapter, see Meacci (2012).

the market/natural price of *labour* as labour and the market/natural price of *commodities* as the *products of labour*. While the interaction with the market/natural price distinction is examined in this section, the other interaction will be tackled in the remaining part of the paper.

The market/natural price distinction is most often used by Ricardo in support of his discussion of the temporary/permanent effects of the bounty. When engaging in this discussion, Ricardo focuses on two different effects depending on whether the commodity on which the bounty is established is a raw material (such as corn) or a manufacture and on whether these effects are studied in a short-run or long-run perspective. While these effects are said by Ricardo to be the same in the two cases if, with a bounty on corn and no diminishing returns to land (in the short run), capital is diverted from manufactures to agriculture (until the rising supply of corn brings the market price down to its old level corresponding to a constant natural price), they are said to be different if, with a continued bounty on corn and diminishing returns to land (in the long run), the supply of corn rises to the higher level of demand (until the market price of corn is fixed at the higher natural price enforced by the law of diminishing returns to agriculture).

The possible reaction of *Smith redivivus* to the arguments concerning these two effects might be put as follows: in his criticisms of my chapter on bounties, Ricardo seems to neglect that my argument is focused on the money/real price rather than on the, otherwise more important, market/natural price distinction: while the former is essentially concerned with *what* is given in exchange for a given commodity, the latter is rather concerned with *whether* the resulting price is determined by occasional or permanent forces and is, accordingly, a temporary or a permanent price. The point worth making here is that *both* money *and* real prices *may* represent *either* market *or* natural prices and that my argument on changing money prices resulting from the bounty holds true regardless of whether the unchanging real prices are market or natural prices. Thus my objections to Ricardo's twofold argument above may be structured as follows:

First. Ricardo's praise of my treatment of market and natural price (*Principles*, p.91) is far-fetched (see my own qualms at the end of Chapter IV, Book I, along with the title and content of Chapter VII which should have been lengthened into "Of the Natural and Market Price of Commodities *and Labour*"). He is not to think therefore that I had forgotten this subject when writing my chapter on bounties. For this chapter is centred on the money/real price, rather than on the market/natural price, distinction only because "in any period of improvement" both natural prices (of corn, labour and any commodity) and natural profits

must be taken as given while market prices and market profits, however different from their natural levels, are governed by -and gravitate towards- them. Market/natural prices and market/natural profits, in so far as they are intended as real prices (which is the assumption underlying my chapter on bounties), cannot be affected, therefore, by any proportional change in money prices and money profits whatever may happen (as Ricardo justly points out) to the resulting short-run variations of market prices and market profits. Thus, when I argue that the price raised by a corn bounty is the money, not the real, price of corn, and when I relate this rise to an increase in the worldwide *demand* for home-made corn, I mean something which Ricardo neglects and on which, however, he would agree; namely that the money price that is to rise is nothing but one of all possible *market* prices of corn while the real price that is to remain constant is essentially the *natural* price of corn. Thus the system of prices that I assume at the beginning of my argument as a starting point for assessing the effects of a bounty is essentially a system of natural prices, i.e. a system that, given the different causes and effects of variations in nominal as distinct from real prices and in market as distinct from natural prices, neither a bounty nor, as I say in that chapter, “any other human institution” would be able to affect.

Second. When observing that I invariably suppose the corn bounty to act only on the quantity actually produced without being any stimulus to further production, Ricardo appears to neglect two distinct aspects of this argument. One of these aspects relates to my idea above that changes in the money price of corn should not be regarded as changes in its real price (except, as I will explain later, for the case of the former changes to be misunderstood or misperceived for the latter) and, more particularly, in its natural price. For the real price of corn I am talking about in the arguments criticized by Ricardo is not to be *intended* as the price (exchangeable value) of one commodity in terms of another (of one form of work done in terms of another form). Neither is this price to be intended as *determined* according to the principle of labour embodied (which I also share though not “in all cases” as misleadingly quoted and intended by Ricardo). Rather, the real price of corn is intended in that chapter as the price of one form of work done (corn) in terms of work to be done (labour) (i.e. as the amount of labour commanded by one unit of corn) while its size is determined according to the principle of demand (for labour) and supply (of corn). Once the period of improvement is given, the “ordinary or average price” of corn for labour (of labour for corn) resulting from the operation of those two principles becomes the *natural* price (either of corn or of labour) of that particular stage. Those two principles govern the determination of the corn price of labour (labour price of corn) *not* only (as Ricardo implies



in his chapter on wages) when it comes to the *market* price of labour; but also (though this is denied by Ricardo in consistency with his peculiar theory of value) when it comes to the *natural* price of labour.

Another aspect of my argument is the period of time to be taken into consideration once the bounty is established. This aspect requires my argument to be split in two parts depending on whether it is focused on the short run or the long run. I admit that I should have highlighted these different scenarios by focusing, for instance, on the standard coefficients of production which are fixed in the former and variable in the latter case. Had I done so, both the similarities with Ricardo's argument and mine as well as the groundlessness of some of Ricardo's criticisms would have appeared more evident. Take for instance the short run. This is the perspective in which I place my discussion not only of the unwelcome effects of the corn bounty when "years of plenty" are turned by the vagaries of the seasons into "years of scarcity". This is also the perspective adopted by Ricardo when he deals with the reversible variations resulting from any discrepancy between the market and natural price of corn. In this sense Ricardo's criticism can be easily incorporated into my own argument<sup>12</sup>. For it should not be forgotten that my argument is structured in essentially *static* terms and is unconcerned, therefore, with the *dynamic* or short-run perturbations resulting from the bounty: its purpose is to attack a policy measure on the basis of my general principles without considering the path along which the economy returns to its departure point once these principles have been violated.

Rather, it is when we come to the long-run perspective that our arguments fall definitely apart. For whereas I rule out any change in the standard coefficients of corn production and rather rush to the conclusion that the final/indirect tendency of the corn bounty is to cut either corn consumption per head (if money wages do not incorporate the two increases required by the bounty) or manufacturers' demand for labour (if money wages rise enough to incorporate those increases), thereby restraining either the

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<sup>12</sup> For instance, when Ricardo argues at the beginning of his criticisms that the rise in the market price of corn resulting from the introduction of the bounty "would produce no effect whatever on its natural price" because "to grow corn would neither require more labour nor more capital", he maintains something on which I not only agree but on which my very argument rests. For my qualification "in a given stage of improvement" simply implies that the natural price of corn (or of any other commodity) is what it is regardless of the variations promoted by any human institution (such as the bounty) in the associated market price. Our difference on this minor issue is that while Ricardo speaks of changes in market prices as real prices I speak of changes in money prices and keep silent on market prices. But my argument may be lengthened in Ricardo's direction without any internal contradiction if one assumes that the variations in money prices may be momentarily perceived by farmers as variations in the real (market) price of corn and in the associated real (market) profit. In this case, as argued by Ricardo, they will increase the production of corn till the price of corn and the profits would return to their initial level. For an interpretation of my argument as a "legitimate long-run model", a "comparative-static" model or simply a "model", see respectively Samuelson (1992), Hollander (1987 [1992]) and Hueckel (2009).

population or the industry of the country or both, Ricardo's reaction is centred on his law of diminishing returns to agriculture and on the resulting rise in the natural price of corn intended in his sense. This rise is the reason why, in his view, country gentlemen have a *permanent* interest while farmers and manufacturers have only a *temporary* interest (via the output and market price oscillations noted above) in the establishment of the bounty. Given my constant-coefficients assumption and my belief (however inappropriate, as I will admit below) in an unchanging real (natural) price of corn, I argued instead that the long-run effect of the bounty is that "it discourages our manufactures, without rendering any considerable service" either to our farmers or to our country gentlemen (*WN*, IV.5.15; IV.5.21)<sup>13</sup>.

### **7. Smith's counter-criticism # 5: money vs. real price of corn**

Smith's argument that the bounty on corn discourages manufactures without rendering any considerable service to farmers and landlords goes hand-in-hand (in his chapter on bounties as much as in many other parts of his work) with his assessment of the diverging ability with which these classes understand their interests and, particularly, their long-run versus their short-run interests. Smith's recurring idea that landlords are much less suitable than manufacturers in performing this function is now focused on their imitation of the manufacturers' support for the establishment of bounties on the exportation, or of high duties on the importation, of their own products. Hence Smith's memorable explanation of why landlords are liable to misunderstand their interest when it comes to the establishment of bounties on corn. Having in mind the different impact of the rise in money prices resulting from bounties on corn as distinct from bounties on manufactures, Smith's argument runs as follows:

"The nature of things has stamped upon corn a real value which cannot be altered by merely altering its money price. No bounty upon exportation, no monopoly of the home market, can raise that value. The freest competition cannot lower it. Through the world in general that value is equal to the quantity of labour which it can maintain, and in every particular place it is equal to the quantity of labour which it can maintain in the way, whether

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<sup>13</sup> A fuller discussion of the link between the long-run interests of farmers, landlords and manufacturers in opposing a corn bounty is reached when Smith deals with the power of corn to "maintain and employ", i.e. to command, a certain quantity of labour in the following passage: "The bounty, as it raises in the home market not so much the real as the nominal price of our corn, as it augments, not the quantity of labour which a certain quantity of corn can maintain and employ but only the quantity of silver which it will exchange for, it discourages our manufactures, without rendering any considerable service either to our farmers or country gentlemen" (*WN*, IV.5.21). Smith's conclusion that the service of the bounty to these classes "will be little more than nominal and imaginary" is coherent, as suggested above, with Ricardo's idea of the reversible short-run changes of corn output and market prices resulting from the introduction of the bounty.

liberal, moderate, or scanty, in which labour is commonly maintained in that place" (*WN*, IV.v.23).

What is the proper meaning of the term nature in this crucial part of Smith's chapter on bounties? If it were intended in the physical or biological sense and if the "real value of corn" were intended accordingly, Ricardo would be right in objecting that this has nothing to do with exchangeable value, the main concern of political economy<sup>14</sup>. If, on the other hand, corn were intended with inverted commas, i.e. as the whole basket of wage goods exchanged for labour when labour is paid in a "liberal" way, it would have, of course, even less to do with it.

Now, if asked about this terminological obscurity, *Smith redivivus* might reply as follows: I admit that some misunderstandings may result from my use of the apparently innocuous expression "real price of corn" in contrast with the expression "money price of corn" on which my argument on bounties is focused. But I must repeat that, whatever the money price may be (this is something that belongs to the realm of money, be it gold, silver or paper money), it is the *real* price of corn, regardless of whether this is a market or a natural price, that is at stake in my argument. I admit that, especially in my chapter on bounties and even in my following retraction of the words used in the passage above<sup>15</sup>, I am often unclear about whether the real price I am talking about is a market or a natural price. But I must also add that it is the natural, rather than the market, price that is at stake when the expression "real price of corn" is used in that chapter to denote the price that "no human institution can alter". The very terms "nature" and "nature of things" are used in my passage above to convey less the idea of a physical constraint than the idea of a natural, as distinct from a money or market, price of corn. Neither is the verb "to maintain" that I also use in that chapter to be necessarily intended in that physical sense. I will return to the economic, rather than physical, nature of this constraint and to the different meanings of the verb "to maintain" (sometimes used in my text as synonymous with the verb "to command") and of the verb "to feed" used by Ricardo in its place. For now, I will defend my ambiguous terminology by arguing that it foreshadows Sraffa's idea of a *basic commodity* (Sraffa,

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<sup>14</sup> Hence his agreement with Buchanan's remark that "in asserting that nature has stamped a real value on corn, which cannot be altered by merely altering its money price, Dr. Smith confounds its value in use with its value in exchange" in that "a bushel of wheat will not feed more people during scarcity than during plenty; but a bushel of wheat will exchange for a greater quantity of luxuries and conveniences when it is scarce, than when it is abundant" (*Principles*, p. 314-5; see also Malthus, 1803). Smith's supposed confusion on this aspect of the issue will be tackled below.

<sup>15</sup> I still remember that, in a letter sent to Holt in October 1780, I confessed that the sentence on the "nature of things" used in the first edition of my work was certainly too strong, and had escaped me in the heat of Writing. As I wrote in that letter, "I ought to have said that the nature of things had stamped upon corn a real value which could not be altered merely by altering its Money price. This was all that the argument required and all that I really meant".

1960). Corn (the vegetable food) was to my mind the basic commodity of my times, i.e. the commodity which, once exchanged for labour (in the sense of work to be done) in the constant quantities required by labourers' physical needs, was to enter into the production of any other commodity. However easy, therefore, it may be to misunderstand the terms "nature" and "nature of things", I do not repent using them in the twofold meaning by which they convey at the same time both the concept of a price of corn unaffected by any institution or vagary of the seasons, and the concept of corn as the only basic commodity of my times, if not of the times that followed suit.

### **8. Smith's counter-criticism # 6: *vérité de raison* vs. *vérité de fait***

The statement above that "the nature of things has stamped upon corn a real value which cannot be altered by merely altering its money price" conveys, however, a message that goes beyond the two concepts just mentioned. To get to the most general implications of that statement, we should start from a criticism that is as implicit in Ricardo's chapter on bounties as it is explicit in Chapter XXVIII:

"Dr. Smith's error throughout his whole work, lies in supposing that the value of corn is constant; that though the value of all other things may, the value of corn never can be raised. Corn, according to him, is always of the same value because it will always feed the same number of people. In the same manner it might be said, that cloth is always of the same value, because it will always make the same number of coats. What can value have to do with the power of feeding and clothing?" (*Principles*, p.374)

Two considerations deserve to be made with regard to Smith's arguments and Ricardo's criticisms in this connection. One concerns the *part* assigned to corn in the basket of wage goods. The other concerns the *role* played by corn in its exchange for labour. As for the part of corn in the wage basket, Ricardo objects that "corn, though an important part, is only a part of the consumption of the labourer" (and concludes that, if money wages increase less than in proportion to the money price of corn, capital will move from manufacturing to agriculture till money profits are brought to the same level in both sectors). As for the role played by corn in the labour market, this is rendered by Ricardo's use of the verb "to feed" in the passage above as if it were synonymous with the verb "to maintain" adopted by Smith when writing that the money price of labour "must always be such as to enable the labourer to purchase a quantity of corn sufficient to maintain him and his family".

To these objections *Smith redivivus* might object as follows: while saying that corn, though an important part, is only a part of the consumption of the labourer, Ricardo seems

to forget, or to object to, what I acknowledge elsewhere, namely that “corn, or whatever else is the common and favourite vegetable food of the people, constitutes, in every civilized country, the *principal* part of the subsistence of the labourer” (WN, I.11.123; italics added). Without going into a dispute over whether corn is the *principal* or only a *part* of the subsistence of the labourer, I will simply defend myself by arguing that Ricardo misunderstands here the *vérité de raison* of my argument for the *vérité de fait* of his criticism<sup>16</sup>. What is essential in my argument is 1) that the *money* price of whatever good is exchanged for labour, i.e. the money price of wage goods in general (be they corn, rice or anything else in different countries or in different stages of improvement) regulates (*coeteris paribus*, including the demand for labour) the money price first of labour and then of everything that is the product of labour; and 2) that the *natural* price both of labour and of the product of labour is what it is in any country and in any stage of improvement regardless of the vagaries of money and market prices.

As for Ricardo’s question “what can value have to do with the power of feeding and clothing?”, my answer is the same as his, i.e. *nothing*; except that the “power of feeding and clothing” reveals the power of food and cloth to *command*, or be exchanged for, a given amount of labour in the labour *market*. Furthermore, even accepting the equivalence between Ricardo’s verb “to feed” and my verb “to maintain”, I must recall that my passage above continues by arguing that the quantity of corn purchased by a labourer with his money wages must be sufficient to “maintain him and his family either in the *liberal*, *moderate*, or *scanty* manner in which the advancing, stationary, or declining circumstances of the society oblige his employers to maintain him” (WN, IV.5.12; italics added). If these words are considered, first, in the light not only of my theory of value (Book I) but also of my theory of capital (Book II) and, subsequently, in connection with my maxim on the “narrow capacity of the human stomach”, approvingly quoted and shared by Ricardo in one of his

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<sup>16</sup> This misunderstanding, it should be added in passing, lies at the roots of the derived criticisms, initially raised by Malthus (1803, 1814), on the “lagged relationships” between price and output variations as well as on the “relative price effect” (resulting from corn being just one of the components of the wage basket) that have been put forward to weaken or contradict my argument *in practice*. For a diverging account of these controversies, see Hollander (1979, chapter 1 and passim) and for an analysis of corn and non-corn wage goods in Ricardo’s full growth model, see Gibbard (1994). I seize this opportunity to add that the evaluation of the bounty as a policy measure belongs in turn to the realm of what holds “in practice” as distinct from what holds “in theory”. When, for instance, at the end of my chapter on bounties I come to the new system of corn laws of my times, my evaluation there is that “with all its imperfections, we may perhaps say of it what was said of the laws of Solon, that, though not the best in itself, it is the best which the interests, prejudices, and temper of the times would admit of” (WN, IV.5. 85-92). I regard this judgement as perfectly in accordance not only with my theoretical view on bounties but also with my idea that the evaluation of actual policy measures, including retaliations between governments, does not belong so much to the “science of a legislator” as to “the skill of that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs” (WN, IV.2). For a detailed discussion of my supposed “consistent inconsistencies” while moving “from the system to the facts”, see Hueckel (2009).

arguments (*WN*, I.11.59; *Principles*, p.217), one is led to conclude that the liberal, moderate, or scanty wages mentioned above correspond to a small, medium or high proportion of corn in the basket of real wages, depending on whether the “circumstances of the society” are advancing, stationary or declining; i.e. on whether the demand for labour exceeds, is equal to or falls short of its supply from one period to another. This however implies what Ricardo cannot accept (due to his different view of the determination of natural prices), namely that the natural price of labour is liable to increase to the liberal levels of my imagination as the accumulation of capital advances and society moves from one stage of improvement to another.

### **9. Smith’s counter-criticism # 7: ambiguities of language vs. ambiguities of analysis**

If the natural price of labour is liable to increase from one stage of improvement to another, what about the natural price of corn? In terms of what should the price of labour be intended to increase once it is maintained, as Smith repeatedly does and Ricardo correctly recalls, that the value of corn is constant both within a given stage of improvement and from one stage to another? In terms of what is the value of corn constant? To answer this question in connection with Smith’s and Ricardo’s chapters on bounties, one should start from two crucial passages to be found in two different chapters of Book I of Smith’s work. One is concerned with the wealth of an individual and can be found in chapter V:

“The power which that possession immediately and directly conveys to him, is the power of purchasing; a certain command over all the *labour*, or over all the *produce of labour* which is then in the market. His fortune is greater or less, precisely in proportion to the extent of this power; or to the quantity either of *other men's labour*, or, what is the same thing, of the *produce of other men's labour*, which it enables him to purchase or command” (*WN*, I.5.3; italics added).

The other passage is directly concerned with the constant value of corn and can be found in chapter XI:

“In every state of society, in every stage of improvement, corn is the production of human industry. But the average produce of every sort of industry is always suited, more or less exactly, to the average consumption; the average supply to the average demand. In every different stage of improvement, besides, the raising of *equal quantities of corn* in the same soil and climate, will, at an average, *require nearly equal quantities of labour*, or what comes to the same thing, the price of nearly equal quantities; the continual increase of the productive powers of labour in an improving state of cultivation being more or less counter-balanced by the continually increasing price of cattle, the principal instruments of agriculture. Upon all these accounts, therefore, we may rest assured, that *equal quantities of corn* will, in every state of society, in every stage of improvement, more nearly *represent, or be equivalent to, equal quantities of labour*, than equal quantities of any other part of the

rude produce of land (*WN*, I.11.123; italics added).

If asked about whether there is any link between these two passages as well as between them and his chapter on bounties, *Smith redivivus* might reply as follows: going back to my arguments on the value of corn over two centuries after the publication of my work, I feel I must re-start from two different distinctions. One is necessary for coming to grips with my ultra-dated and odd idea of the constant value of corn. The other is necessary for grasping the un-dated and ever-lasting aspect of my system of thought. The former is the distinction, mentioned above, between *vérité de raison* and *vérité de fait*. The other is the distinction between the point of view of an *individual* and the point of view of *society*.

However far-fetched my argument may appear to all those who are aware of all the stages of improvement that have materialized in world history since 1776, it should still be acknowledged that my mistake did not consist in confusing a *vérité de raison* (a commodity to be used as an unchanging standard for measuring changes in the value of any other commodity cannot change in its own value) with a *vérité de fait* (which commodity may be thought to perform this function as a proxy in the actual world). For in Chapter V, Book I, of my work I make it clear that what is true *in theory*, namely that labour “is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places” (*WN*, I.5.17), need not correspond to what is true *in practice*. From this different standpoint we have to take note that the greater part of people understand better what is meant by a quantity of a particular commodity (“a plain palpable object”, as I say in that chapter) than by a quantity of labour (which, as I also say in that chapter, is “an abstract notion”) (*WN*, I.5.5). My only mistake consisted in identifying corn as such a commodity; and in supporting this identification by the argument that the total labour embodied in one unit of corn would not change from one stage of improvement to another. But this is a mistake only from the standpoint of a *vérité di fait* and as such is not very different from Ricardo’s adoption of gold as the invariable standard in his arguments on value. I am rather puzzled, however, by Ricardo’s failure to trace the *vérité de raison* involved in that argument to the principle, so dear to him, of labour embodied, not to speak of his renunciation to exploit another of my supposed inconsistencies on the subject of value.

I must confess, however, that my ambiguities reach a climax if the second passage quoted above is considered in the light of the first; and especially if both passages are then considered in the light of my chapter on bounties. But I nonetheless maintain that these ambiguities belong to the language I happen to use in different parts of my work rather than

to the analysis on which my work is founded. When, for instance, I write in Chapter V of Book I that the possession of a given fortune immediately and directly conveys to its owner “a certain command over all the labour, or over all the produce of labour which is then in the market” and that his fortune is greater or less precisely in proportion to “the quantity either of other men's labour, or, what is the same thing, of the produce of other men's labour, which it enables him to purchase or command”, I am not confusing what I distinguish elsewhere very clearly, i.e. work to be done (other men's labour) and work done (the produce of other men's labour). For what I am dealing with in that chapter, and even more so in the ambiguous passage just quoted, is the kind of power conveyed by wealth to its individual owner. When one adopts this standpoint, it is indeed irrelevant whether the object commanded is labour or the product of labour. The fact is that my ambiguous language does indeed conceal what a careful reader can nonetheless discern as one of the foundations on which my system of thought is erected. This is the distinction between the point of view of an individual and the point of view of society. Now I acknowledge that I should have been more explicit on this distinction. Had I done so, the difference between wealth from the point of view of an individual and wealth from the point of view of society would now be easier to grasp. It would then have become clearer to everybody that, when one turns from the former to the latter point of view, the concept of wealth as whatever (and however) possessed by an individual changes into the concept of wealth as what I call the “necessaries, conveniences and amusements of human life” annually available in a country. What this wealth eventually purchases or commands in the economy as a whole cannot be but work to be done either in the sense of *productive* labour to be employed in the (simple or enlarged) *reproduction* of this very wealth, or in the sense of *unproductive* labour to be employed in its final and barren *consumption*.

#### **10. Smith's final counter-criticism: constant vs. rising corn price of labour**

The considerations can now be used to provide an answer to the question asked at the beginning of the previous section: in terms of what can the price of labour be intended to increase if the value of corn is supposed to be constant? There must be some consistency, yet to be found, between the two parts of this question if Smith's *vérité de raison* is to hold within his system of thought.

The answer might be provided by *Smith redivivus* as follows: the value of corn supposed constant is conceived in my work mostly in terms of the labour embodied in its production (work done) but also in terms of the labour commanded in the labour market (work to be



done). Now I admit that, apart from this ambiguity, my view reflected the actual conditions of the corn/labour market of the poor economies of my times rather than of the developed economies of modern times. And I also admit that, if taken in the second sense, my view of the constant value of corn is even more ambiguous than if taken in the first. For I should have made it clear that, if the amount of labour (work to be done) maintained (or, as I say more often, commanded) by one unit of corn *may* indeed be thought to remain constant from one period to another, the amount of corn commanded by one unit of labour *must* instead be thought to increase from one period of *improvement* to another, i.e. when the accumulation of capital (of which I speak so widely in my Book II) brings about a permanent increase in the demand for labour (compared to its supply).

Now, apart from our different views of the constant value of corn as a *vérité de fait*, the sense of labour embodied implies what is evident from my passage on the value of gold and silver discussed above, namely that I fully concur with Ricardo on the theory of the value of one commodity (be it corn or any product of labour) in terms of any other, including the modifications and distortions so ably discussed in his chapter on value.

I radically take issue with him, however, when the study of the value of commodities in terms of each other is extended to the value of labour in terms of the wage goods exchanged for it; and particularly when the study of the value of one commodity in terms of another is replaced by the study of the value of all commodities *taken together* (or “taken complexly”, as I say in *WN*, I.6.17; II.2.2). In terms of what should this value be determined? While Ricardo’s answer is: in terms of the amount of labour *embodied* in their production, my answer is: in terms of the amount of labour *commanded* by wage goods in the labour market. Hence my final answer to the question I raised at the beginning of this section. In some parts of my work I have argued that the value of corn (in terms of other commodities) is constant while in other parts I have argued (justly and consistently in spite of my previous ambiguities) that the value of labour (in terms of corn and of wage goods in general) rises as one moves from one stage of improvement to another. The consistency within this apparent contradiction is that what rises is, in these circumstances, the *power* of labourers to command *initially* more corn than is actually needed by their survival and *eventually* more and more wage goods other than this necessary amount of corn. Thus corn (be it the vegetable food or any wage good) appears and reappears in my work either as a form of work done possessed by one individual and exchanged for any other form possessed by another individual in proportions essentially determined by the principle of labour embodied, or as a form of work done possessed by one individual, or by all the

individuals taken together, and exchanged directly or indirectly for the work to be done possessed by labourers in proportions to be determined by the law of demand (of their labour in exchange for wage goods) and supply (of wage goods in exchange for their labour). I must point out, however, that when it comes to the economy as a whole and to the value of work to be done in terms of wage goods (real wage), the only principle left over for explaining its changes from one period to another is the principle of value as *command of labour* in its ultimate form of *command of work to be done*. These exchanges and exchangeable values outline the frontier along which the wage-profit inverse relationship (in my sense and not in Ricardo's) can be seen at work under conditions of competition between the owners of work to be done (workers) and the owners of work done (first in any form and ultimately in the form of wage goods). The accumulation of capital and the resulting increase in the demand for labour (compared to its supply) ensure that the natural price of labour (in my sense and not in Ricardo's) is liable to rise indefinitely in terms of the wage goods, including corn, exchanged for it. Given a particular stage, this price is what it is, whatever the effect of a bounty or any other institution on the money or market price of corn and on the money or market price of labour, as argued or implied in my chapter on bounties<sup>17</sup>.

## 11. Concluding remarks

Ricardo's criticisms and Smith's counter-criticisms on the subject of bounties upon exportation have been examined above in two contexts. One was concerned with the specific issue under discussion. The other was concerned with the general principles underlying the systems of thought of our two authors.

Concerning the bounty on corn in particular, we have seen that Ricardo's reconstruction of Smith's arguments is based on the misunderstanding by which Smith's money prices of corn, of labour and of all (home-made) commodities are intended by Ricardo as real prices. Ricardo's reconstruction of Smith's arguments thus seems to be based, via a diverging view of the stock of money in terms of which the variations in the money price of corn must be expressed, on the *petitio principii* by which this reconstruction is indeed *consistent* with

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<sup>17</sup> Thus Ricardo is right when he states that "labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price". Yet he is wrong when he traces the *determination* of this natural price not to the permanent demand for labour (compared to its supply) but to the labour embodied in the wage goods necessary "to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution" (*Principles*, p.93). On the other hand, does not Ricardo's view of the "natural price of labour" have anything to do with the very flaw that he wrongly believes to affect my supposed conception of value as the "power of feeding and clothing" discussed in my counter-criticism # 6 above?

Ricardo's approach to the problems of value as set out in the first chapter of his *Principles*, but is nonetheless inconsistent with Smith's own approach to the problem of bounties.

Concerning the general principles of the two systems of thought, Ricardo's criticisms are derived from the wage-profit inverse relationship which in his first chapter on value is in turn derived from the exclusive principle of labour embodied. That view and this principle are different from what is argued or implied in Smith's work. This difference stems from the fact that Ricardo's view of that relationship is concerned with *shares* of the *value* produced according to the principle of labour embodied rather than with the *amount* of *riches* exchanged for labour according to the principle of labour commanded. Thus Smith's and Ricardo's chapters on bounties reappear as two useful starting points for delving into the different foundations of their systems of thought. This is the approach adopted in this paper. By moving from one criticism and counter-criticism to another, we have eventually argued that Smith's grave ambiguities on the notions and exchangeable values of *labour* as labour and of *commodities* as products of labour are worsened, rather than improved, by Ricardo's idea that the natural price of labour (work to be done) is determined according to the same and exclusive principle of labour embodied that determines the natural price of commodities as products of labour (work done).

The following is a summary of how, starting from the criticisms and counter-criticisms set out or implied in Smith's and Ricardo's chapters on bounties, one gets to what seems to be Smith's general view of how the principle of labour embodied is consistent with the principle of labour commanded as well as of the forces that determine, via the wage-profit inverse relationship intended in Smith's peculiar sense, the natural price of labour as distinct from the natural price of commodities:

*Given the exchangeable (real) value of wage goods in terms of labour (or viceversa) and the exchangeable (real) value of all commodities in terms of each other, what happens if a human institution such as a bounty upon the exportation of corn (wage goods) is introduced into the system of these values? The answer is that no change can occur, in the long run if not in the short run, either in the real (natural) value of commodities in terms of each other or in the real (natural) value of wage goods in terms of labour (or viceversa) because the former is determined by the amount of labour embodied in each commodity (work done) whereas the latter is determined by the increasing amount of wage goods that, given the accumulation of capital and the resulting increase in the demand for labour, is commanded from one stage of improvement to another by a given amount of labour as work to be done (or viceversa).*

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